HAVELOCK LONDON

31 December 2023

HAVELOCK GLOBAL SELECT

FUND PERFORMANCE

Cumulative Returns

1 Month	YTD	1 Year	3 Years	5 Years	Since Launch
6.0%	9.8%	9.8%	34.1%	58.4%	49.3%

Calendar Returns

Year	Q1	Q2	Q3	Q4	Annual Return
2019	6.2%	2.9%	1.9%	3.5%	15.3%
2020	-20.9%	13.9%	1.7%	11.8%	2.4%
2021	11.0%	2.8%	2.4%	-1.4%	15.2%
2022	1.9%	-4.7%	-4.6%	14.3%	5.9%
2023	3.4%	-3.0%	-0.1%	9.6%	9.8%

This performance information refers to the past. Past performance is not a reliable indicator of future results. This information is denominated in GBP: returns may increase or decrease as the result of currency fluctuations.

FUND DETAILS

Fund Size	£156M
Fund Manager	Matthew Beddall
Fund Structure	OEIC (UK UCITS)
Fund Domicile	UK
Launch Date	21st August 2018
Base Currency	GBP
ISIN	GB00BFM7DN78
SEDOL	BFM7DN7

The Key Investor Information Document (KIID) and prospectus are available in English from:

Havelock London
19 Eastbourne Terrace
London, W2 6LG
Tel: +44 (0)20 3637 7300
www.havelocklondon.com

Waystone Group
PO Box 389
Darlington, DL1 9UF
Tel: +44 (0)345 9220044
www.fundsolutions.net

COMMENTARY

The fund's unit price increased by 9.8% in 2023, taking the total increase in unit price since inception to 49.3%.

The dominant narrative in markets during the year was around the extent to which inflation had been "tamed" and central banks might halt, or even reverse, rate rises. We do not invest based on macro-economic views, but this narrative generated volatility in market prices, and hence volatility in valuations, that I believe we benefited from. We had allowed cash to build up in the fund during the first half of the year, such that we were deploying dry powder in the last quarter at what felt like attractive valuations. When the overall mood in markets turned positive in the final two months, the fund then moved to close the year at a new high.

Although good fortune played a role in the timing of performance, the ebullient year end mood followed a period when we saw signs of distressed selling in markets. Outflows from the fund management industry were well publicised last year, and we saw several mid-market UK funds experiencing very high levels of redemption. This left me of the opinion that some of the falls in company valuations we had seen were more the product of forced liquidation, than changes to business conditions. Hence, the strong performance in the final two months of the year was helped by us having moved to be fully invested into situations with attractive valuations.

In what follows I provide some musing on the challenges of long-term investing, followed by a full review of the portfolio, and its performance, in the last year.

New Year's Resolutions

If you are anything like me you will have arrived in January willing yourself to be a better person, full of resolutions to eat less, exercise more, and to use your time more wisely. As we all know it is much easier to plan to do this, than to actually do it! At every twist and turn temptation lures you down the alternative path. My personal nemesis is dark chocolate. Put a bar of it within a hundred feet of me and I turn into Augustus Gloop, shoveling it down as if I hadn't eaten for a week. Now of course I know that my body would be better served by time on the treadmill, but my inner chimp is somehow blind to this in the moment that temptation strikes.

The reason we struggle to stick to our resolutions is that the "good stuff" invariably gives us a dopamine hit that we are evolved to desire. My pre-historic ancestors didn't have to contend with a Hotel Chocolat outlet on every street corner, and with limited supply it made sense to indulge whenever the opportunity arose.

When you view the world through the lens of dopamine hits, you realise that many highly profitable businesses are built on our inability to suppress desire. Tobacco, alcohol, and sugar are all tangible examples that have spawned lucrative multi-trillion-dollar industries. Some other examples I can think of are perhaps less suited to a family audience!

Human ingenuity, being what it is, has increased the variety of ways that we can get our kicks, and made them more copious. Digital technology took this to another level, with social media platforms being examples of mighty businesses created in the knowledge of what makes our inner chimp tick. Search for a video of a cat, and Google will provide you with 466 million different choices. You could watch them for the rest of your days, without need for repetition.

Before you start thinking that I am subjecting you to a treatise[1] on healthy living, I will return my narrative to investment management.

In much the same way that our personal indulgences stimulate dopamine in our brains, many of the forces acting on us as professional investors do too. We are subject to a virtual firehose of information, analysis, and punditry that has been growing in size exponentially. The quest for our attention nudges much of this content away from the mundane and into the direction of the titillating or sensational.

I am a firm believer that most of what provides excitement in financial markets is irrelevant to the discipline of investing. Focusing on where the latest inflation "print" landed, which companies had a quarterly earnings "miss", or what Elon Musk tweeted, directs attention towards the short-term and overestimates the importance of what is often just background noise. This in turn can lead to the "churning" of investments, which wastes money on transaction costs, and makes one more likely to crystallise loses and miss gains.

With all of this said, I like this status quo, because the fixation on the short-term creates miss-pricings that value investors, like us, can benefit from!

An example of this is an industrial business that we just added into the portfolio. It is a key supplier in the food chain, has served customers since 1842, and is the number two operator amongst four dominant suppliers. It has a number of barriers to entry, but its apparent downfall is that customer orders ebb and flow with the price of commodities, such that its economics are "cyclical".

A recent broker note on this company argued that an 8x earnings multiple was a fair way to estimate the value of the business, versus the current share price being at 6.8x. I happen to think that it is a bargain, but this isn't the point of the story. In the analyst's mind uncertainty over the price of soyabeans next year seems to hold far more importance than 150 years of history. Judging the company as being worth only 8x earnings, suggests a very bleak outlook. That this analysis didn't attempt to discuss the longer-term, tells me a lot.

---

[1] If this is what you were looking for, I can highly recommend Anna Lembke's book, "Dopamine Nation".

I see a long-term focus as a key source of investment edge for us, but one that requires daily effort to maintain. The drumbeat in markets is focused on the short-term, and rushing to buy or sell investments on the back of it does, I believe, stimulate dopamine in the brain. Much has been written on the subject of behavioural finance, and our chimp brains bias towards activity is well documented. Warren Buffett summed this up well when he said that "the stock market is designed to transfer money from the active to the patient".

The ugly twin of short-termism, is narratives. Our brains work best with stories, which is why much of what we read about markets takes this form. Pundits attempt to rationalise every up or down move in each financial instrument with a story as to why people were buying or selling. Narratives are what lends credibility to a focus on the short-term, as they make investors feel more confident about the certainty of the risks and opportunities they face.

Clearly some narratives will be accurate some of the time, but often they are pure conjectures. Our approach to investing is to be circumspect about accepting any explanation at face value, unless we can substantiate it. It helps to be able to hold multiple competing narratives[2] in your head at one time, but this is easier said than done, and is a source of discomfort. When you are less willing to accept a narrative, you are less inclined to knee-jerk reactions.

An area where we were actively investing last year was in UK mid-caps. Much ink has been spilt crafting narratives as to why they appear cheap, often rationalising it as a logical consequence of concerns about the British economy. Likewise, explanations as to why individual companies see their share prices fall, typically focus on the nuances of the outlook for their business.

We met the CEO of a FTSE 250 company which is priced around 7x next year's earnings, suggesting major concerns about its longevity. It is an international business, being one of two dominant global players in their field. The CEO told us that many of their large shareholders were UK focused funds that had suffered large redemptions, which had caused them to be forced sellers of their holdings. Whilst this is a narrative, it is an alternative to the idea that investors are acting purely based on views of company fundamentals.

I mention this as I see the fall in valuation of many UK listed companies as an example of how a fixation on narratives by others is creating opportunity for us. Whilst the uncertainty of BREXIT was a legitimate reason for concern over domestically focused companies, it appears to have given way to a stampede of indiscriminate selling of UK listed assets. This is evident from the number of UK focused funds that have seen major redemptions.

We of course do not know when, if ever, the abandonment of the UK equity market will reverse, but the sale of Hotel Chocolat to Mars, provides an example of how counteracting forces can work.

Much like New Year's resolutions, I think many investors know the right thing to do if they are to achieve improved financial health, but the hard part is to actually do it. I will be doing my best to stay away from dark chocolate this year, but I don't suppose it will cause Mars to rescind their offer!

Portfolio Update

During the course of the year we sold 13 existing holdings, and purchased 16 new ones. Fund inflows and outflows make turnover calculations for the year misleading, as using the standard methodology that accounts for fund flows gives a value of just 1%. The alternative calculation, which uses the lower of total buys or sells, gives a value of 34%, but some of this turnover was still the product of fund flows.

In the UK we sold holdings in Whitbread, Taylor Wimpey, Hargreaves Lansdown, and Rio Tinto and purchased holdings in Future, H&T Group, Next 15, and TP ICAP. The small holding in Hargreaves was sold based on more general concerns with our original thesis, whereas the other three sales were motivated solely by valuations. The purchases were all due to attractive valuations, that we felt did not reflect the quality and prospects of each company.

[2] This is a concept recognised by psychologists and known as cognitive dissonance.

We also sold our holding in a UK listed cash shell, Logistics Development Group, albeit that its country of domicile is immaterial to its business. It represented something of an "arbitrage" opportunity because the value of its balance sheet cash exceeded its market capitalisation. This discount narrowed, such that we decided there was better opportunity elsewhere.

In Europe we sold our long-standing holding in Henkel, as well as our more recently established holding in Prosus. We purchased holdings in Aalberts, AcadeMedia, Ipsos, and Moller Maersk. Henkel is a holding that we have had since the start of the fund, and is a case where our original analysis proved too optimistic, such that a rally in its share price was used as an opportunity to exit. By contrast, our thesis for Prosus, which gives indirect exposure to the Chinese company Tencent, played out exactly as we hoped.

Aalberts is a diversified industrial business, operating in a number of specialist niches, AcadeMedia is a Swedish education business, Ipsos is a French market research business, and Moller Maersk is an international shipping business. Aalberts moved to become one of our larger core holdings, as it stacks up very well on our investment criteria, whereas the others all represent smaller holdings, but with equally attractive valuations.

In North America we sold our holdings in MillerKnoll and Evertz Technologies, and purchased a holding in Argonaut Gold. We owned MillerKnoll from when it was known as Herman Miller prior to its takeover of Knoll, and the increased leverage from the takeover meant it had become a materially different business. Evertz is a business we admire, but given its relatively low liquidity, we saw better opportunity elsewhere. Argonaut Gold's operations are focused in North America, and we were attracted both by its modest valuation versus the value of reserves and the credibility of the management plan to turn the business around.

We sold both of our Hong Kong holdings during the year, Haitian International and Nine Dragons Paper. We continue to see "value" opportunities in Hong Kong, but reluctantly decided that a full understanding of all aspects of the risk of investing in China is outside our wheelhouse.

We established a holding in the Korean conglomerate, LG Corp. The success of the business since Koo In-Hwoi founded it in 1947 is impressive, and like other value investors we see it as attractively priced versus the sum of its parts.

We sold our holding in the Japanese real estate company, Daito Trust Construction, and purchased new holdings in Dowa Holdings, ROHM Co, Shimamura, Stanley Electric, Subaru, and Toyo Suisan. We had done well from our ownership of Daito, selling only due to the valuation. The new holdings have all been established in smaller sizes, and all represent Japanese companies with excess capital on their balance sheets, such that they are candidates for "reform". Our approach in Japan, where language and cultural differences make our research approach more difficult, is to own more companies but with smaller weightings.

Cash and cash equivalents represented 6% of the fund at the start of the year, versus 1.5% at the end. The size of these holdings peaked at around 13.5% during the year. During the year we took advantage of higher interest rates, via very short-dated UK treasury bills, which were typically offering yields of 4% – 5%.

Performance

The top five positive contributors to fund performance were Associated British Foods, Micron Technologies, Warner Brothers Discovery, Next 15 Group, and Whitbread. The five largest negative contributors were Nine Dragons Paper, Bakkafrost, Johnson Matthey, Wynnstay, and Newmont.

Associated British Foods is best known for its Primark clothes shops, which made a strong recovery from the period of enforced closure during COVID. This company makes for a pleasing example of the virtues of patience, as its share price appeared much more anchored to short-term earnings, than long term prospects. Our thesis was that the economics of the business would normalise after COVID, which they did. We continue to own the company, albeit that we did make some reductions to the size of the holding.

Micron Technologies is one of the three large manufacturers of memory chips and suffered share price falls in the aftermath of COVID, as demand for consumer electronics slowed. We bought into the company with the expectation that it was a situation where the market was too fixated on the short-term, but the subsequent boom in everything AI-related, meant that we didn't need to wait long before being rewarded.

Warner Brothers Discovery, like a lot of media businesses, has seen a very high level of share price volatility as the industry is seeing both disruption and a fall in advertising revenue. It does not feel as though this uncertainty has been resolved, but the business continued to generate cashflows, which were used to reduce debts. The positive contribution reflected the consensus view of the business "coming back from the brink", but still stopping short of being all-out positive.

Nine Dragons Paper is China's largest manufacturer of paper and cardboard. The much talked about post-COVID boom in China did not materialise, and so the company did not see much of a recovery in its economics. The holding was sold, for the reasons discussed earlier, but its use of debt to grow manufacturing capacity, meant that the investment case had also changed since we originally invested. Given how attractive valuations have appeared in Hong Kong, we were somewhat thankful to have had only very limited exposure to the continued fall in share prices – the Hang Seng index having halved since its 2021 peak.

Bakkafrost is a Faroese salmon farming business, that has expanded its operations into Scotland. The company is executing a plan to improve fish health, and yields, via a series of well thought through capital investments. With this said the company had disappointing harvest volumes in 2023, as a result of poor fish health, which preceded a share price fall. At this stage we view this as being within the realms of typical year-on-year fluctuation for the business, rather than a failing of their strategy, and so remain invested.

Johnson Matthey is a company that we have owned for a long period of time and is in the midst of a turnaround by the new CEO. We believe that the company's core catalytic convertor business will be longer-lived than the consensus view appears to assume, and that it will continue to be cash generative. Part of the reason for share price falls in the last year is that earnings were impacted by lower precious metals prices, which is something we view as short-term noise, rather than indicative of the long-term prospects of the business.

Finally…

It just remains for me to thank all of our customers for the support that they have given us in the last year. Neil and I are delighted to have made it to the fifth anniversary of the fund with a successful performance track record that we feel validates what we originally set out to achieve. Our company, Havelock London Ltd, moved to being profitable, and so we now find ourselves in a position of relative strength versus the last few years.

I do not know what is in store for the year ahead, but I continue to believe that we have not yet seen the full consequences of the end of the zero-interest rate era. Access to "free money" impacted the behaviour of consumers and companies alike, and I believe it will take time before we know the full ramifications of higher rates. It seems likely to me that with more money directed to interest payments, the most indebted borrowers will face continued pressure. This translates to us insisting on a "margin of safety" in the valuation of our investments, which is the cornerstone of our approach to try to grow our clients' wealth.

Matthew Beddall
CEO, Havelock London

IMPORTANT INFORMATION

This is the opinion of the author at the time of writing and it may change. The company examples used are for illustrative and information purposes only. Every attempt is made to ensure this information is correct or up-to-date. This is not a recommendation or investment advice and you must not use it to make investment decisions.

Investment Risks

The value of investments in WS Havelock Global Select (the fund) may fall as well as rise. Investors may not get back the amount they originally invested. Investments will also be affected by currency fluctuations if made from a currency other than the fund's base currency. Past performance is not a reliable indicator of future results.

Potential investors should not use this document as the basis of an investment decision. Decisions to invest in the fund should be informed only by the fund's Key Investor Information Document (KIID) and prospectus. Potential investors should carefully consider the risks described in those documents and, if required, consult a financial adviser before deciding to invest. The fund can invest more than 35% of its value in securities issued or guaranteed by an EEA state listed in the prospectus.

Performance Data

All performance information is for the A-Accumulation share class, which is the longest running share class for the fund. This performance information refers to the past. Past performance is not a reliable indicator of future results. This information is denominated in GBP: returns may increase or decrease as the result of currency fluctuations.

The data in this document is sourced from the fund accountants unless otherwise specified. The data used to calculate the price to earnings ratio is sourced from Bloomberg.

Other Information

This document has been issued by Havelock London Ltd, which is authorised and regulated by the Financial Conduct Authority (FCA reference number: 799920). It is confidential and must not be distributed or copied — either in whole or in part - without our consent. This material is provided for information only and is not intended to offer, solicit, recommend or advise on the purchase or sale of any investment. It should not be used to make investment decisions. This material is not intended for any person in the United States. None of Havelock London's services or related funds is registered under the US Investment Company Act of 1940 or the US Securities Act of 1933. This material is not an offer to sell or solicitation of offers to buy securities or investment services to or from any US person.